
FINANCIAL INFORMATION AND FORECAST

SELECTED FINANCIAL AND OPERATING INFORMATION

The following discussion and the selected financial and operating information set forth below should be read in conjunction with the Audited Financial Statements of the Properties and Audited Financial Statements of the BVI Companies set forth in Appendices I and II to this Offering Circular. The Audited Financial Statements of the Properties and Audited Financial Statements of the BVI Companies have been prepared in accordance with HKFRS.

The financial information of the Properties and the BVI Companies in this Offering Circular relate to the Properties and BVI Companies under their previous ownership and management. As the Properties formed part of the business operations of the subsidiaries of GZI and there were no separate books and records maintained for each of the Properties on a standalone basis, the Audited Financial Statement of Properties have been prepared for the period from 20 December 2002⁽¹⁾ to 31 December 2002, each of FY2003 and FY2004, as well as each of the six months ended 30 June 2004 and 30 June 2005 according to the basis of preparation and assumptions set out in Note 2 to the Audited Financial Statements of the Properties in Appendix I to this Offering Circular, which include two particular accounting treatments: (i) interest charges incurred at the central treasury of GCCD are not reflected in the combined financial statements as there were no direct bank borrowings for the GCCD Properties; and (ii) income tax expenses were reported to the relevant tax bureau on an entity basis by GCCD. As such, income tax expenses for the GCCD Properties are calculated based on the tax rate applicable to these Properties as if they were collectively a separate tax entity. As the Properties were not operated as a single standalone entity in the past, the Audited Financial Statements of the Properties may not give a true picture of the performance of the Properties as if they had been operated on a standalone basis.

Information contained here may not be an indication of the future operations of GZI REIT. The method of managing the Properties under GZI REIT has been designed to comply with the REIT Code and to meet general expectations in respect of a real estate investment trust's property and financial management processes. Following the transfer of the Properties to GZI REIT, the management structure and the cost and capital structures of the Properties as well as the management philosophy and operational processes of the Manager are expected to differ from those previously adopted with respect to the Properties. These variations are expected to affect the future financial results of GZI REIT (see the sections headed "Manager's Discussion of Future Operations" and "Profit Forecast" in this Offering Circular).

The Audited Financial Statements of the BVI Companies have been presented on a combined basis to represent the combined state of affairs as at 31 October 2005 as well as combined results and combined cash flows for the ten months ended 31 October 2005. (See Appendix II to this Offering Circular for the details of the Audited Financial Statements of the BVI Companies.)

(1) Being the date on which the transfer of the Properties from GCCD Group to GCCD was completed (see the section headed "The Properties and Business — Past Transactions of the Properties" in this Offering Circular).

SELECTED FINANCIAL AND OPERATING INFORMATION

Audited Financial Statements of the Properties

Combined Income Statements

	Period from 20 December 2002 ⁽¹⁾ to 31 December			Six months ended 30 June	
	2002	FY2003	FY2004	2004 ⁽²⁾	
	(HK\$'000)	(HK\$'000)	(HK\$'000)	(Unaudited)	2005
	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)
Turnover — Rental Income and property management fees	3,274	129,395	172,080	79,610	92,644⁽³⁾
Other gains — net	203	11,731	9,481	4,406	5,863
Property management fees	(27)	(1,221)	(5,700)	(1,814)	(3,597)
Promotional and agency expense	(195)	(5,495)	(5,160)	(1,986)	(3,436)
Fitting out and maintenance expenses	(14)	(1,474)	(2,116)	(1,077)	(1,204)
Business tax and flood prevention fee	(184)	(8,632)	(10,715)	(4,972)	(7,056)
Bad debts	—	(430)	(611)	(167)	(443)
Employment benefit expense	(440)	(14,757)	(17,488)	(6,199)	(7,153)
Depreciation expenses	(41)	(1,664)	(1,285)	(688)	(611)
Miscellaneous expenses	(212)	(6,403)	(7,935)	(2,863)	(3,547)
Direct outgoings	(1,113)	(40,076)	(51,010)	(19,766)	(27,047)
Other operating expenses	(30)	(2,927)	(2,799)	(1,495)	(2,446)
Operating Income	2,334	98,123	127,752	62,755	69,014⁽³⁾
Finance costs ⁽⁴⁾	—	—	—	—	—
Fair value gains on investment properties	— ⁽⁵⁾	246,341	5,107	— ⁽⁵⁾	612,044
Profit before taxation	2,334	344,464	132,859	62,755	681,058
Income tax expenses	(770)	(109,608)	(44,273)	(20,709)	(214,650)
Profit for the period/year	1,564	234,856	88,586	42,046	466,408
Profit for the period/year before fair value gains on investment properties and related tax impact⁽⁶⁾	1,564	65,742	85,594	42,046	46,239

SELECTED FINANCIAL AND OPERATING INFORMATION

Notes:

- (1) Being the date on which the transfer of the Properties from GCCD Group to GCCD was completed (see the section headed “The Properties and Business — Past Transactions of the Properties” in this Offering Circular).
- (2) The figures for the six months ended 30 June 2004 have only been reviewed and not audited.
- (3) In order to present the Rental Income and Operating Income on a comparable basis and to reflect the historical performance of the Properties over the two and one-half years ended 30 June 2005, the non-recurring item in the financial statements for the six months ended 30 June 2005 (namely, the accelerated amortisation of deferred assets amounting to approximately HK\$17.0 million (see the section headed Manager’s Discussion and Analysis of Financial Condition and Results of Operation — Audited Financial Statements of the Properties — Key Items in the Combined Income Statements — Gross Turnover” in this Offering Circular for an explanation of the nature of this item)) has been excluded from the discussion in the section headed “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Offering Circular, and the adjusted turnover and operating income are as follows:

	Six months ended 30 June 2005
	(HK\$’000)
Gross Turnover	109,595
Operating Income	85,965

- (4) Interest charges incurred at the central treasury of GCCD are not reflected as a part of the basis of preparation of the Audited Financial Statements of the Properties as there were no direct bank borrowings in respect of the Fortune Plaza Units, the City Development Plaza Units and the Victory Plaza Units.

There were no finance costs incurred for the White Horse Units during the relevant period.

- (5) No revaluation of the Properties was carried out during the six months ended 30 June 2004. There was no revaluation gain or loss during the period from 20 December 2002 to 31 December 2002.
- (6) Assuming the direct application of enterprise income tax of 33.0% on Operating Income.

SELECTED FINANCIAL AND OPERATING INFORMATION

Audited Financial Statements of the Properties

Combined Balance Sheets

	As at 31 December			As at
	2002	2003	2004	30 June
	(HK\$'000)	(HK\$'000)	(HK\$'000)	2005
ASSETS				
Non-current assets				
Property, plant and equipment	118,128	11,165	10,598	7,169
Land use rights	252,929	—	—	1,230 ⁽¹⁾
Investment properties ⁽²⁾	1,576,633	2,437,384	2,444,859	3,114,286
	1,947,690	2,448,549	2,455,457	3,122,685
Current assets				
Deferred assets	6,521	9,344	16,641	4,995
Prepayments, deposits and other receivables	3,653	4,350	5,400	6,093
Cash and cash equivalents	31,978	41,878	39,695	18,329
	42,152	55,572	61,736	29,417
Total assets	1,989,842	2,504,121	2,517,193	3,152,102
LIABILITIES				
Non-current liabilities				
Deferred tax liabilities	387,269	467,640	473,536	669,736
Rental deposits, non-current portion	23,715	27,170	10,051	15,097
	410,984	494,810	483,587	684,833
Current liabilities				
Rental deposits, accruals and other payables	10,291	18,758	43,841	43,873
Current tax payable	7,721	4,720	6,151	5,550
	18,012	23,478	49,992	49,423
Total liabilities	428,996	518,288	533,579	734,256
Net assets	1,560,846	1,985,833	1,983,614	2,417,846
Financed by:				
Accounts with Subsidiaries of GZI				
- Arising from accumulated profits	1,564	236,420	325,006	791,414
- Others	1,559,282	1,749,413	1,658,608	1,626,432
	1,560,846	1,985,833	1,983,614	2,417,846

Notes:

- (1) This amount represented pre-paid operating lease payments for the land use rights of the units in the White Horse Units used by White Horse Property Management Company as its on-site property management office (see the section headed "The Leasing Agents — Property Management Offices" in this Offering Circular) and was classified as investment properties when Partat became the beneficial owner of the White Horse Units.
- (2) Investment property is carried at fair value under the relevant accounting policies. The valuer appointed historically (Greater China Appraisal Limited) is different from the one appointed by the Manager for GZI REIT. In the past, Greater China Appraisal Limited had primarily relied on the income capitalisation approach in valuing the Properties.

SELECTED FINANCIAL AND OPERATING INFORMATION

Audited Financial Statements of the Properties

Combined Cash Flow Statements

	Period from 20 December 2002 ⁽¹⁾ to 31 December			Six months ended 30 June	
	2002	FY2003	FY2004	2004 ⁽²⁾	
	(HK\$'000)	(HK\$'000)	(HK\$'000)	(Unaudited)	2005
	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)
Cash flows from operating activities					
Net cash inflow from operations	8,966	107,919	128,009	51,042	88,047
PRC enterprise income tax	—	(32,238)	(36,946)	(18,153)	(19,051)
Net cash inflow from operating activities	8,966	75,681	91,063	32,889	68,996
Cash flows from investing activities					
Acquisition of businesses by subsidiaries of GZI recognised in the accounts with subsidiaries of GZI	(1,568,637)	—	—	—	—
Acquisition of businesses by subsidiaries of GZI, net of cash acquired	32,344	—	—	—	—
Addition of property, plant and equipment	—	(253,028)	(722)	(191)	(3,891)
Proceeds from sale of property, plant and equipment	—	—	—	—	617
Addition of investment properties	—	(3,154)	(2,368)	—	(54,526)
Addition of land use right	—	—	—	—	(1,230)
Interest received	23	270	649	263	844
Net cash inflow/(outflow) from investing activities	(1,536,270)	(255,912)	(2,441)	72	(58,186)
	(1,527,304)	(180,231)	88,622	32,961	10,810
Net advances from/(to) subsidiaries of GZI	1,559,282	190,131	(90,805)	(34,210)	(32,176)
Increase/(decrease) in cash and cash equivalents ⁽³⁾	31,978	9,900	(2,183)	(1,249)	(21,366)

SELECTED FINANCIAL AND OPERATING INFORMATION

	Period from 20 December 2002 ⁽¹⁾ to 31 December			Six months ended 30 June	
	2002	FY2003	FY2004	2004 ⁽²⁾	
	(HK\$'000)	(HK\$'000)	(HK\$'000)	(Unaudited) (HK\$'000)	2005 (HK\$'000)
Balances at beginning of year/period					
— Cash and cash equivalents ⁽³⁾	—	31,978	41,878	41,878	39,695
— Accounts with subsidiaries of GZI ⁽⁴⁾	—	(1,559,282)	(1,749,413)	(1,749,413)	(1,658,608)
Balances at end of year/period					
— Cash and cash equivalents ⁽³⁾	31,978	41,878	39,695	40,629	18,329
— Accounts with subsidiaries of GZI ⁽⁴⁾	(1,559,282)	(1,749,413)	(1,658,608)	(1,715,203)	(1,626,432)

Notes:

- (1) Being the date on which the transfer of the Properties from GCCD Group to GCCD was completed (see the section headed "The Properties and Business — Past Transactions of the Properties" in this Offering Circular).
- (2) The figures for the six months ended 30 June 2004 have only been reviewed and not audited.
- (3) Changes in cash and cash equivalents are attributable to the operations of the White Horse Units.
- (4) The treasury and cash disbursement functions of the GCCD Properties were centrally administered by GCCD. Cash flows such as receipt of rental income, settlement of expense payable and the acquisitions of assets were handled by GCCD centrally and therefore reflected herein.